



# **China Hospital Industry Development and Investment Report, 2009-2010**

**Dec. 2010**

## ***This report***

- ◆ Illustrates the overall development and policy environment of China's hospital industry
- ◆ Analyzes the overall situation and development trend of private and foreign hospitals in China, the operation and development strategies of 12 typical private hospitals (including Beijing Phoenix Hospital Group, Shenzhen BOAI Hospital Group, Aier Eye Hospital Group, Topchoice Dental Medical, and Concord Medical Services) and three typical foreign hospitals (United Family Hospital, Parkway Group Healthcare, and Chang Gung Memorial Hospital); as well as the investment and main risks in China's hospital industry

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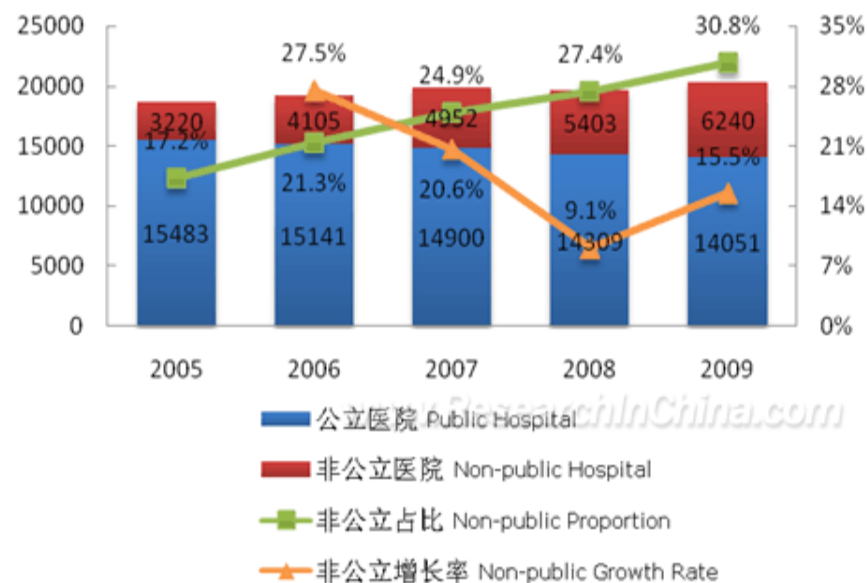
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## Abstract

Under the influence of social demand and continuous government investment, China's hospital industry has experienced rapid development in recent years, and increased its revenue from RMB423.8 billion in 2005 to RMB859.5 billion in 2009 at a CAGR of 19.3%. Especially, China has issued policies to encourage diversified hospital investors and investment approaches, which has promoted the development of non-state-owned hospitals greatly. From 2005 to 2009, the number of non-state-owned hospitals increased substantially from 3,220 to 6,240 at a CAGR of 18.0%, while the number of state-owned hospitals had been declining. As of the end of 2009, non-state-owned hospitals had accounted for 30.8% of the total number of hospitals in China.

**Number and Growth Rate of State-owned and Non-state-owned Hospitals in China, 2005-2009**



Source: ResearchInChina; Ministry of Health of PRC

On December 3, 2010, China issued Opinions on Further Encouraging and Guiding Investment of Social Capital in Medical Institutions to further clarify the attitude of Chinese government toward opening up the hospital industry. The Opinions provides a fairer environment for non-state-owned hospitals by loosening the approval of medicare-designated non-state-owned hospitals and for the first time allowing the establishment of foreign-owned hospitals, and so on. In the future, it will be inevitable that state-owned hospitals, private hospitals and foreign hospitals will bolster China's hospital industry, and particularly, private and foreign hospitals will have better prospects.

1. Private hospitals. Private hospitals are mostly specialized hospitals and regional medical groups, with low market concentration. Although private hospitals are confronted with the development bottleneck of high tax rate, lack of professionals and policy support, they have been developing rapidly since Chinese medical market demand has kept increasing in recent years.

Take Aier Eye Hospital Group as an example. As a Medicare-designated hospital, it has expanded its business quickly in China through its unique three-level chain business model. In 2009, its total income valued RMB606 million, up 38.1% yr-on-yr, and its gross profit margin was 57.1%; eye care services reaped RMB447 million, accounting for 73.8% of the total revenue. Specially, excimer laser eye surgery and cataract surgery contributed 44.1% and 24.4% to the total medical service revenue respectively.

2. Foreign hospitals. Foreign hospitals have powerful financial strength, with good management and brand advantage. In recent years, they have developed well in the field of high-end medical services for foreigners in China. However, the foreigner-oriented market potential is limited, therefore, with China's economic development, foreign hospitals are penetrating into medium and high-class families in China.

Among foreign hospitals, CHINDEX United Family Hospital and Clinics is the most successful in China. Its success lies in its profound understanding of Chinese culture and policies. It targets at medium and high-end medical service market, and implement localization and differentiation strategies. In 2009, its operating income was USD85.78 million, up 8.1% year on year; its gross profit valued USD19.31 million with a gross profit margin of 22.5%, an increase of seven percentage points compared with 2008. In 1998, most of its patients were foreigners and people from Hong Kong, Macao and Taiwan, and mainland Chinese patients accounted for less than 1/10; by 2008, mainland Chinese patients had accounted for more than 50%.

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